FINANCIAL STATEMENTS

June 30, 2003

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits Members of the Board of Education Hardin County School District Elizabethtown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the *Hardin County School District* (the "District") as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements*, and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 of the basic financial statements, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting

Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments, Statement No. 37, Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus, Statement No. 38, Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated August 22, 2003 on our consideration of *Hardin County School District's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 59 through 60 are not a required part of the basic financial statements but are supplementary information required by *Government Accounting Standards*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the

financial statements. The additional information shown on pages 62 through 75 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Holland CPAS, PSC

Bowling Green, Kentucky August 22, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS



HARDIN COUNTY SCHOOLS ELIZABETHTOWN, KENTUCKY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2003

As management of the Hardin County Schools (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.



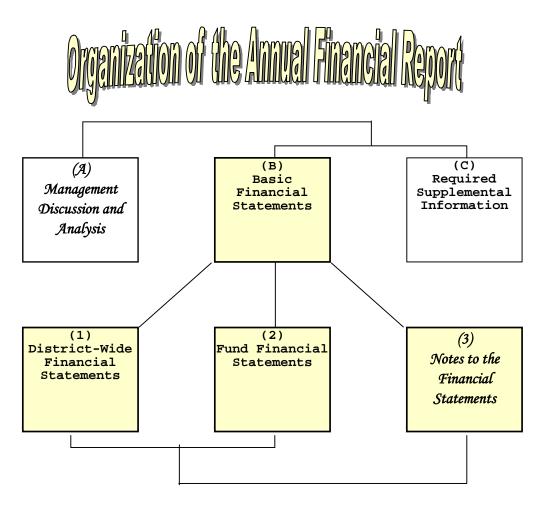
FINANCIAL HIGHLIGHTS

- The beginning General Fund fund balance for the District was \$9,762,220. The ending General Fund balance was \$11,970,074. The major reason for the increase of \$2,207,854 in the fund balance was the SEEK adjustment. SEEK is an acronym for Support Educational Excellence in Kentucky and is the state formula for funding schools. The SEEK base was increased from the original forecast used for budgeting. Because of the uncertainty in the SEEK funding, many expenditure items were not included in the budget. Also contributing to the increased balance was the approval to pay from the Capital Outlay Fund for insurance and some maintenance costs normally paid from the General Fund.
- The beginning Construction Fund fund balance for the District was \$11,175,377. The ending Construction Fund balance was \$4,087,221. The major reasons for the decrease in the fund balance were the proceeds from the sale of bonds for John Hardin High School and Lakewood Elementary School in prior years and construction payments made from those funds in the current year.
- The Annual Financial Report will show the General Fund with a large increase in state revenue due to a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution to our employee's health insurance and retirement is included in the district's revenues and expenditures for the first time. The revenue is recorded as "ON BEHALF PAYMENTS". This amount was reported as revenue and also as expenditures and therefore has no effect on the fund balance. The expenditure of this money is recorded under employee benefits in different functions Instruction, School Food, Transportation, and District Administrative Support.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hardin County Schools as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Assets* and (2) the *Statement of Activities*. The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during 2003?" The Statement of Net Assets and the Statements of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's' goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and it's adjustments, the School District's property tax base, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- Government Activities Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Taxes and intergovernmental revenues also support fixed assets and related debt.
- Business-Type Activities These services are provided on a charge for goods or services basis to
 recover all of the expenses of the goods or services provided. The School District's food service is
 reported as business activities. These activities are funded thru fees, federal grants, and federal
 commodities.

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$54,583,342 as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding (\$37,815,296). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds

are assets that belong to others. The school's activity funds are reported as fiduciary funds. The main proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Hardin County School District are the general fund, special revenue (grants), and the construction fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statements of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The only proprietary funds are our food service operations, School Age Child Care, and Educational Television Production.

Fiduciary Funds – The schools' activity funds (or agency funds) are District fiduciary funds. The schools' activity balances at year-end totaled \$853,075. The only other fiduciary fund for the District is the Scholarships Fund with an ending balance of \$165,528.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets for the period ending June 30, 2003 *

		Proprietary	
	Governmental	Business-Type	
	Activities	Activities	<u>Total</u>
Current and Other Assets	\$ 22,636,390	\$ 1,014,765	\$ 23,651,155
Capital Assets	84,729,964	926,619	85,656,583
Total Assets	\$ 107,366,354	\$ 1,941,384	\$ 109,307,738
Long Term Liabilities	\$ 51,059,128	\$ 0	\$ 51,059,128
Other Liabilities (current)	3,553,361	111,907	3,665,268
Total Liabilities	\$ 54,612,489	\$ 111,907	\$ 54,724,396
Net Assets			
Investment in capital assets (net of debt	t) \$ 36,888,677	\$ 926,619	\$ 37,815,296
Restricted	5,780,612	0	5,780,612
Unrestricted Fund	10,084,576	902,858	10,987,434
Total Net Assets	\$ 52,753,865	\$ 1,829,477	\$ 54,583,342

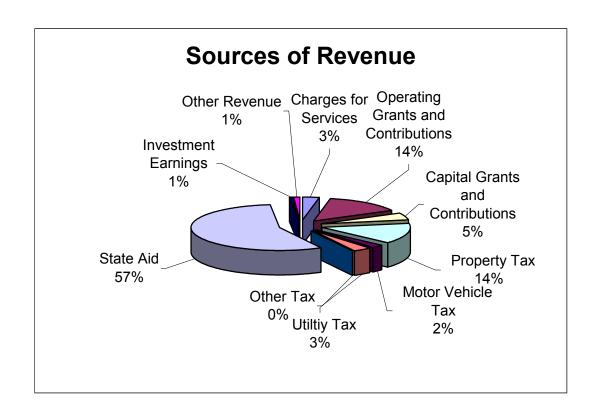
^{*} Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

At year-end, assets exceeded liabilities by \$54,583,342.

Changes in Net Assets for the period ending June 30, 2003*

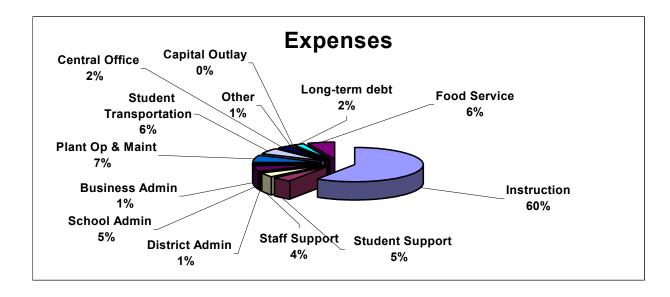
	Government Activities	Proprietary Business- Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$121,857	\$2,742,733	\$2,864,590
Operating Grants and Contributions	\$10,553,216	\$3,104,210	\$13,657,426
Capital Grants and Contributions	\$4,669,359	\$0	\$4,669,359
General Revenue			
Taxes			
Property Tax	\$13,745,328		\$13,745,328
Motor Vehicle Tax	\$2,103,539		\$2,103,539
Utility Tax	\$3,088,837		\$3,088,837
Other Tax	\$81,207		\$81,207
State Aid	\$53,450,318		\$53,450,318
Investment Earnings	\$732,588	\$9,286	\$741,874
Other Revenue	\$973,272	\$95,030	\$1,068,296
Total Revenues	\$89,519,521	\$5,951,259	\$95,470,780

• Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.



Program Expenses	
Instruction	\$54,572,623
Support Services	
Student Support Services	\$4,321,241
Instructional Staff Support Services	\$3,839,241
District Administration	\$679,910
School Administration	\$4,608,777
Business Administration	\$1,088,139
Plant Operations & Maintenance	\$6,546,830
Student Transportation	\$5,090,195
Central Office	\$2,194,918
Other	\$1,222,548
Interest on long-term debt	\$2,288,375
Food Service	\$5,820,318
Total Expenses	\$92,273,115

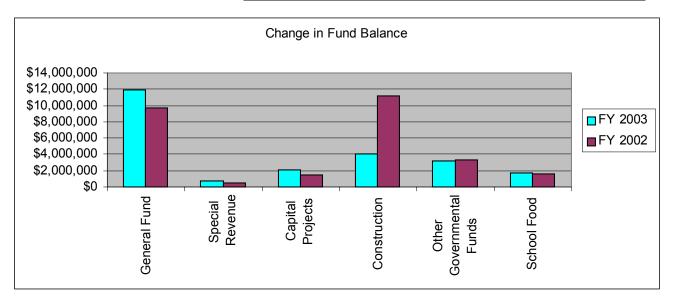
^{*} Note: In subsequent years, this chart will compare last year's Net Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.



- The District's total revenues were \$95,470,780 and the total expenditures were \$92,273,115. Revenues exceeded expenditures by \$3,197,665.
- State revenues accounted for 57% and local taxes accounted for 19% of the revenue.
- Instruction was the major expense category and accounted for 60% to the total.
- Food service revenues exceeded expenses by \$172,661.

Financial Analysis of the District Funds

Changes in End-of-Year	FY 2003	FY 2002	Amount of	%
Fund Balances			Change	Change
General Fund	\$11,970,074	\$9,762,220	\$2,207,854	23%
Special Revenue	\$695,773	\$480,943	\$214,830	45%
Capital Projects	\$2,106,900	\$1,520,463	\$586,437	39%
Construction	\$4,087,221	\$11,175,377	(\$7,088,156)	(63%)
Other Governmental Funds	\$3,250,061	\$3,312,550	(\$62,489)	(2%)
School Food	\$1,743,463	\$1,570,802	\$172,661	11%
Total	\$23,853,492	\$27,822,355	(\$3,968,863)	(14%)



- The General Fund's fund balance showed an increase of \$2,207,854. This was primarily the result of the adjustment to the SEEK base after the District had adopted the budget for the year and expenditures paid from the Capital Outlay Fund as allowed this year only.
- The Special Revenue fund had an increase of \$214,830. The principal reason for the difference is that the technology fund was transferred to the special revenue fund. Much of this money was unspent at the end of FY 2003.
- Capital Projects show an increase in fund balance of \$586,437 due to revenue in Capital Outlay and
 FSPK exceeding current debt service requirements. This increase was in addition to expenditures for
 insurance and maintenance transferred to Capital Outlay this year.
- The Construction fund shows a decrease in fund balance of \$7,088,156 due to prior year bond sales remaining in that fund and paid to contractors for construction in progress during the current year.
- The School Food Fund's fund balance had a \$172,661 increase due to increased revenues from participation during, before and after school.

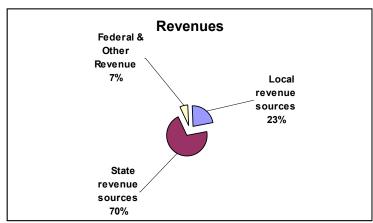
Comments on General Fund Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2003, net of interfund transfers, were \$72,136,782. This is \$13,255,292 more than was budgeted in the final working budget. The primary reason for the difference is that GAAP requires our audit to include state contributions to our employee's retirement, health and life insurance. This is referred to as "On-Behalf" revenue. The District does not get these funds directly and it is not included in our budget. However, it must be in the District's audit. This "On-Behalf" contribution was \$11,055,502 for 2002-2003. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner; thus, local revenues were higher than budgeted (\$1,118,624).
- Expenditures were also greater than budgeted primarily because of the inclusion of the in-kind state benefits mentioned above. The \$11,055,502 "On-Behalf" money was shown spent in the different functions (instruction and support services). Instruction alone shows \$4,571,378 more spent than budgeted.
- District administration shows a variance of \$2,227,301. The reason is because this is where the district's contingency is budgeted. The contingency is not meant to be expended, but is to be used as the district's beginning balance for next year. The contingency budgeted was actually \$2,000,000.
- The district has a beginning balance for next year of \$11,970,074 because in addition to the contingency, many programs in the budget had a carryover balance at year-end.
- The Final Budget and the Original Budget differ primarily because the Original Budget is prepared by the end of February for the next school year and the state had not adopted their budget yet.

The following tables present a summary of revenue and expense for the fiscal year ended June 30, 2003.

Amount

Revenues:		<u> </u>
Local revenue sources	\$	20,541,064
State revenue sources	•	63,028,444
Federal Revenue		5,897,482
Total revenues	\$	89,466,990

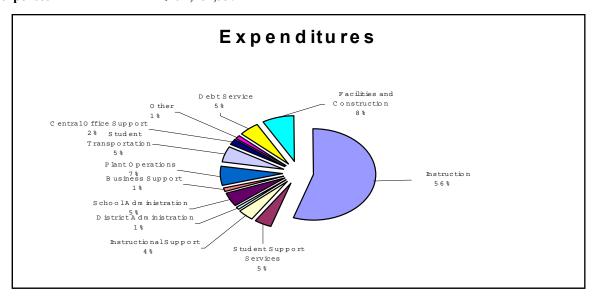


The majority of revenue was derived from state funding (70%) with local revenue sources making up 23% and federal funding 7% of total revenue.

Expenditures:

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Instruction	\$ 51,793,403
Student Support Services	4,321,241
Instructional Support	3,839,241
District Administration	847,977
School Administration	4,610,176
Business Support	1,088,139
Plant Operations	6,572,867
Student Transportation	5,166,426
Central Office Support	1,952,309
Other	1,176,981
Debt Service	4,943,371
Facilities and Construction	7,972,426
Total expenses	\$ 94,284,557

* The District was mandated by the Kentucky Department of Education to give a 2.7% salary increase.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2003, the district had invested \$134,723,802 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The accumulated depreciation of \$49,067,219 resulted in total net assets of \$85,656,583.

SUMMARY OF CAPITAL ASSETS *

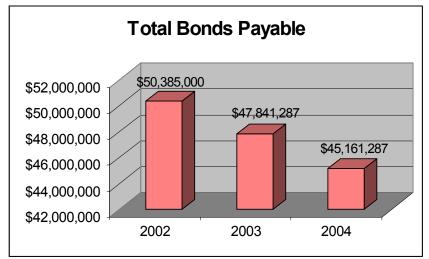
	Governmental	Business-Type	
	Activities	Activities	Total
Land	\$ 2,905,351	\$ 18,304	\$2,923,655
Buildings	\$ 74,932,255	\$ 83,508	\$75,015,763
Vehicles	\$ 3,092,593	\$ 13,202	\$3,105,795
Equipment and Furniture	\$ 3,799,765	\$ 811,605	\$4,611,370
Total Assets	\$ 84,729,964	\$ 926,619	\$85,656,583

^{*} Note: In subsequent years, this chart will compare last year's Capital Assets to the current year's. Since this is the first year the District has prepared financial statements following GASB statement 34, comparisons are not available.

Long-Term Debt

At year-end, the district had \$47.8 million in general obligation bonds outstanding. This was a decrease of 2.6 million over last year. Scheduled payments will reduce outstanding bonds another 2.7 million by the end of FY 2004. Current year bond and interest payments total about 5.1 million of which the state School Facility Construction Commission (SFCC) pays about 2.0 million with 3.1 million required from the District

budget.



BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximately 70 % of its new funding revenue each year from the state, most of that through the funding formula (SEEK). Last year there was an adjustment that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 23 % of the new funding revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth through the seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$11,970,074, which is 11.95% of the total budget or 16.59 % of the general fund budget as a beginning balance for next year.

By law the budget must have a minimum 2 % contingency. The district adopted a budget with \$2,850,000 in contingency (2.9 %). The beginning fund balance for beginning the fiscal year is \$11,970,074. Significant Board action that impacts the finances include a 3.85 % pay raise for all employees, additional spending on after school tutoring, preschool, and special education programs, maintenance and repair projects, and general fund matching dollars for other grants. The district currently participates in forty-four federal grants. The total budget for these grants is \$8,714,453. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements. The District participates in many state grants. Most of the state grants are either paid in advance or funded quarterly and therefore do not cause a cash flow problem.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Hardin County Schools are to continue to increase the level of achievement of our students, continue to maintain and improve the average daily attendance of our students, and continue to provide modern facilities.

The most important challenge is to increase the achievement of our students. The District has increased the funding in several areas to move toward this goal. The District has added to the funding support to the grants for the preschool and the special education programs. Because state funding was cut, the District has replaced the state grant for textbooks with local funds. The District has also budgeted funds to provide for an after school tutoring program to help students in need. The District has implemented an energy management program projected to save at least \$250,000 annually on utilities. By making the district operations more efficient, money saved can be used to improve student achievement.

The second district challenge mentioned is maintaining and improving the average daily attendance. The district receives funding through the SEEK formula based on this count. Growth within the district is limited. It is therefore vital that our schools have high attendance percentages. While attendance is critical to the funding of the District, it is more important to note that good attendance has a direct relationship to student achievement. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

We made an important step this year to improve our facilities, our third challenge, by opening a new elementary school in the western end of the county and closing two small centers in poor condition. The state legislature has made an offer of assistance to the District to build a new elementary school in the southern part of the county and close the two small centers in that area. If the Board chooses to take advantage of the offer, the District will need to use other state offers (SFCC), construction reserves currently available, and sell bonds for the balance needed to complete the project. We are currently renovating two of our middle schools and we need to plan to do that with some other buildings within the next five to ten years. Adhering to the facilities plan is essential in providing excellent learning environments for our students.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. Questions about this report or additional information needed should be directed to William S. Day, Associate Superintendent for Finance and Support (270) 769-8800, 65 W. A. Jenkins Road, Elizabethtown, KY, 42701 or e-mail bday@hardin.k12.ky.us.



STATEMENT OF NET ASSETS June 30, 2003

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 20,334,658	\$ 160,126	\$ 20,494,784
Taxes – current	327,995	0	327,995
Taxes – delinquent	14,977	0	14,977
Accounts	66,384	19,332	85,716
Intergovernmental – state	259,364	0	259,364
Intergovernmental – federal	1,585,882	392,122	1,978,004
Direct federal	12,218	0	12,218
Inventory	0	443,185	443,185
Bond issuance costs	37,075	0	37,075
Less: accumulated amortization	(2,163)	0	(2,163)
Non-depreciated capital assets	19,858,052	16,790	19,874,842
Depreciable capital assets	111,587,894	3,261,066	114,848,960
Less: accumulated depreciation	(46,715,982)	(2,351,237)	(49,067,219)
TOTAL ASSETS	107,366,354	1,941,384	109,307,738
LIABILITIES			
Accounts payable	1,870,623	111,907	1,982,530
Deferred revenue	727,726	0	727,726
Accrued interest	955,012	0	955,012
Long-term obligations:			
Due within one year:			
Outstanding bonds	2,680,000	0	2,680,000
Compensated absences	350,000	0	350,000
Due beyond one year:			
Outstanding bonds	45,161,287	0	45,161,287
Compensated absences	2,867,841	0	2,867,841
TOTAL LIABILITIES	54,612,489	111,907	54,724,396

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
NET ASSETS Invested in capital assets, net of related debt	36,888,677	926.619	37,815,296
Restricted for:	,,-	,-	- ,,
Construction	232,146	0	232,146
BG-1 projects	3,855,075	0	3,855,075
SFCC	550,230	0	550,230
Debt service	1,143,161	0	1,143,161
Unrestricted	10,084,576	902,858	10,987,434
TOTAL NET ASSETS	\$ 52,753,865	\$ 1,829,477	\$ 54,583,342

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2003

		F	ROGRAM REVENUE	≣S		EXPENSE) REVENUI	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES							
Instruction	\$ 54,572,623	\$ 64,911	\$ 8,428,753	\$ 92,030	\$ (45,986,929)	\$ 0	\$ (45,986,929)
Support Services:							
Student	4,321,241	0	19,657	0	(4,301,584)	0	(4,301,584)
Instructional staff	3,839,241	0	818,202	0	(3,021,039)	0	(3,021,039)
District administration	679,910	0		0	(679,910)	0	(679,910)
School administration	4,608,777	0	6,244	0	(4,602,533)	0	(4,602,533)
Business	1,088,139	0	792	0	(1,087,347)	0	(1,087,347)
Plant operations and maintenance	6,546,830	33,412	0	0	(6,513,418)	0	(6,513,418)
Student transportation	5,090,195	23,534	387,093	0	(4,679,568)	0	(4,679,568)
Central office	2,194,918	0	0	0	(2,194,918)	0	(2,194,918)
Non-instructional	76,860	0	0	0	(76,860)	0	(76,860)
Other	1,100,121	0	892,475	0	(207,646)	0	(207,646)
Facilities acquisition and construction	0	0	0	2,647,793	2,647,793	0	2,647,793
Interest on long-term debt	2,286,212	0	0	1,929,536	(356,676)	0	(356,676)
Amortization expense	2,163	0	0	0	(2,163)	0	(2,163)
Loss on disposal of assets	45,567	0	0	0	(45,567)	0	(45,567)
TOTAL GOVERNMENTAL ACTIVITIES	86,452,797	121,857	10,553,216	4,669,359	(71,108,365)	0	(71,108,365)

Food services	BUSINESS-TYPE ACTIVITIES							
TOTAL BUSINESS-TYPE ACTIVITIES 5,820,318 2,742,733 3,104,210 0 0 0 26,625 26,625 TOTAL PRIMARY GOVERNMENT 992,273,115 2,864,590 \$ 13,657,426 \$ 4,669,359 (71,108,365) 26,625 (71,081,740) GENERAL REVENUES Taxes: Property 13,745,328 0 13,745,328 Motor vehicle 2,103,539 0 2,103,539 Utilities 3,088,837 0 3,088,837 Unmined minerals 3,311 0 3,311 Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 778,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665	Food services	5,586,882	2,498,486	3,104,210	0	0	15,814	15,814
TOTAL PRIMARY GOVERNMENT S 92,273,115 S 2,864,590 \$ 13,657,426 \$ 4,669,359 (71,108,365) 26,625 (71,081,740)	Other	233,436	244,247	0	0	0	10,811	10,811
GOVERNMENT \$ 92,273,115 \$ 2,864,590 \$ 13,657,426 \$ 4,669,359 (71,108,365) 26,625 (71,081,740) GENERAL REVENUES Taxes: Property 13,745,328 0 13,745,328 Motor vehicle 2,103,539 0 2,103,539 Utilities 3,088,837 0 3,088,837 Unmined minerals 3,311 0 3,311 Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665		5,820,318	2,742,733	3,104,210	0	0	26,625	26,625
Taxes: Property 13,745,328 0 13,745,328 Motor vehicle 2,103,539 0 2,103,539 Utilities 3,088,837 0 3,088,837 Unmined minerals 3,311 0 3,311 Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS TOTAL GENERAL REVENUES AND TRANSFERS AND TRANSFERS 74,175,089 104,316 74,279,405		\$ 92,273,115	<u>\$ 2,864,590 \$</u>	13,657,426 \$	4,669,359	(71,108,365)	26,625	(71,081,740)
Property 13,745,328 0 13,745,328 Motor vehicle 2,103,539 0 2,103,539 Utilities 3,088,837 0 3,088,837 Unmined minerals 3,311 0 3,311 Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665			_	NUES				
Motor vehicle 2,103,539 0 2,103,539 Utilities 3,088,837 0 3,088,837 Unmined minerals 3,311 0 3,311 Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665				tv		13 745 328	0	13 745 328
Utilities 3,088,837 0 3,088,837 Unmined minerals 3,311 0 3,311 Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665			•	,			•	
Unmined minerals 3,311 0 3,311 Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665							•	
Other 77,896 0 77,896 State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665						, ,	•	
State aid 53,450,318 0 53,450,318 Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665						•	-	
Investment earnings 732,588 9,286 741,874 Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665						,		•
Other 920,741 11,979 932,720 Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665							•	
Transfers 52,531 83,051 135,582 TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665				· ·		,	,	
TOTAL GENERAL REVENUES AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS 3,066,724 130,941 3,197,665						,	•	·
AND TRANSFERS 74,175,089 104,316 74,279,405 CHANGE IN NET ASSETS					-	52,531	63,051	135,562
			10	-		74,175,089	104,316	74,279,405
NET ASSETS – BEGINNING			CHANGE IN NET	ASSETS		3,066,724	130,941	3,197,665
			NET ASSETS - E	BEGINNING	······ -	49,687,141	1,698,536	51,385,677

NET ASSETS – ENDING <u>\$ 52,753,865</u> \$ 1,829,477 \$ 54,583,342

BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash Accounts receivable:	\$ 12,234,262	\$ 0	\$ 4,850,335	\$ 3,250,061	\$ 20,334,658
Taxes – current	327,995	0	0	0	327,995
Taxes – delinquent	14,977	0	0	0	14,977
Accounts	66,384	0	0	0	66,384
Intergovernmental – state	0	259,364	0	0	259,364
Intergovernmental – federal	0	1,585,882	0	0	1,585,882
Direct federal	0	12,218	0	0	12,218
Due from other funds	155,409	2,172	0	0	157,581
TOTAL ASSETS	\$ 12,799,027	\$ 1,859,636	\$ 4,850,335	\$ 3,250,061	\$ 22,759,059

LIABILITIES AND FUND BALANCES

LIABILITIES						
Accounts payable	\$	826,781	\$ 280,728	\$ 763,114	\$ 0	\$ 1,870,623
Due to other funds		2,172	155,409	0	0	157,581
Deferred revenue		0	727,726	0	0	727,726
TOTAL LIABILITIES		828,953	1,163,863	763,114	0	 2,755,930
FUND BALANCES						
Reserved for:						
Construction		0	0	232,146	0	232,146
BG-1 projects		0	0	3,855,075	0	3,855,075
SFCC		0	0	0	550,230	550,230
Site based carryforward		140,061	0	0	0	140,061
Compensated absences		950,000	0	0	0	950,000
Debt service		0	0	0	1,143,161	1,143,161
Unreserved	1	10,880,013	695,773	0	1,556,670	 13,132,456
TOTAL FUND BALANCES		11,970,074	695,773	4,087,221	3,250,061	 20,003,129
TOTAL LIABILITIES AND FUND BALANCES	\$ 1	12,799,027	\$ 1,859,636	\$ 4,850,335	\$ 3,250,061	\$ 22,759,059

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS June 30, 2003

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	\$ 20,003,129
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$131,445,946, and the accumulated depreciation is \$46,715,982	84,729,964
Bond issue costs are not financial resources and therefore are not reported as assets in governmental funds. The cost of the asset is \$37,075, and the accumulated amortization is \$2,163.	34,912
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	(47,841,287)
Accrued interest of the bonds	(955,012)
Compensated absences	 (3,217,841)
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	\$ 52.753.865

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2003

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 11,938,993	\$ 0	\$ 0	\$ 1,806,335	\$ 13,745,328
Motor vehicle	2,103,539	0	0	0	2,103,539
Utilities	3,088,837	0	0	0	3,088,837
Unmined minerals	3,311	0	0	0	3,311
Other	77,896	0	0	0	77,896
Tuition and fees	64,911	0	0	0	64,911
Earnings on investments	536,521	20,700	175,368	0	732,589
Other local revenue	516,106	103,316	105,231	0	724,653
Intergovernmental – state	53,510,734	4,940,381	0	4,577,329	63,028,444
Intergovernmental – federal	295,934	5,601,548	0	0	5,897,482
TOTAL REVENUES	72,136,782	10,665,945	280,599	6,383,664	89,466,990
EXPENDITURES					
Current:					
Instruction	42,708,970	9,084,433	0	0	51,793,403
Support services:					
Student	4,301,584	19,657	0	0	4,321,241
Instructional staff	3,021,039	818,202	0	0	3,839,241

District administration	847,977	0	0	0	847,977
School administration	4,603,932	6,244	0	0	4,610,176
Business	1,087,347	792	0	0	1,088,139
Plant operations and maintenance	5,994,017	0	0	578,850	6,572,867
Student transportation	4,779,333	387,093	0	0	5,166,426
Central office	1,952,309	0	0	0	1,952,309
Non-instructional	76,860	0	0	0	76,860
Other	207,646	892,475	0	0	1,100,121
Debt service:					
Principal	0	0	0	2,590,000	2,590,000
Interest	0	0	0	2,316,296	2,316,296
Bond issuance cost	0	0	0	37,075	37,075
Facilities acquisition and construction	0	0	7,672,175	300,251	7,972,426
TOTAL EXPENDITURES	69,581,014	11,208,896	7,672,175	5,822,472	94,284,557
EVACA (RECIDIENCY) OF REVENUES OVER					
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,555,768	(542,951)	(7,391,576)	561,192	(4,817,567)
OTHER FINANCING SOURCES (USES)					
Refunding bond proceeds	0	0	0	2,882,231	2,882,231
Payment to escrow agent	0	0	0	(2,845,156)	(2,845,156)
Operating transfers	(347,914)	757,781	303,420	(660,756)	52,531
TOTAL OTHER FINANCING SOURCES (USES)	(347,914)	757,781	303,420	(623,681)	89,606
NET CHANGE IN FUND BALANCE	2,207,854	214,830	(7,088,156)	(62,489)	(4,727,961)
FUND BALANCE - BEGINNING	9,762,220	480,943	11,175,377	3,312,550	24,731,090
FUND BALANCE – ENDING	\$ 11,970,074	\$ 695,773	\$ 4,087,221	\$ 3,250,061	\$ 20,003,129

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2003

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$ (4,727,961)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$4,220,577) is less than capital outlays (\$9,705,940) in the period.	5,485,363
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. Loss on the disposal of assets equaled this amount during the year.	(45,567)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	2,590,000
The proceeds for the issuance of refunding bonds provide current financial resources and are reported in the fund financial statements but they are presented as liabilities in the statement of net assets.	(2,882,231)
The payment to the escrow agent for refunded bonds is shown as a use of current resources in governmental funds, and as a reduction of long-term liabilities in the statement of net assets	2,845,156
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred	(198,036)
CHANGE IN NET ASSETS – GOVERNMENTAL ACTIVITIES	\$ 3,066,724

STATEMENT OF NET ASSETS PROPRIETARY FUNDS June 30, 2003

	ENTERPRISE FUND FOOD SERVICE		OTHER ENTERPRISE FUNDS		· <u></u>	TOTAL
ASSETS						
CURRENT ASSETS						
Cash	\$	51,884	\$	108,242	\$	160,126
Accounts		18,963		369		19,332
Intergovernmental – federal		392,122		0		392,122
Inventory		443,185		0		443,185
TOTAL CURRENT ASSETS		906,154		108,611		1,014,765
NON-CURRENT ASSETS						
Fixed assets – net		926,619		0		926,619
TOTAL ASSETS	<u>\$</u>	1,832,773	<u>\$</u>	108,611	<u>\$</u>	1,941,384
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	\$	89,310	\$	22,597	\$	111,907
TOTAL CURRENT LIABILITIES		89,310		22,597		111,907
NET ASSETS						
Invested in capital assets, net of related debt		926,619		0		926,619
Unrestricted		816,844		86,014		902,858
TOTAL NET ASSETS		1,743,463		86,014		1,829,477
TOTAL LIABILITIES AND NET ASSETS	\$	1,832,773	\$	108,611	\$	1,941,384

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES			
Lunchroom sales	\$ 2,498,486	\$ 0	\$ 2,498,486
Tuition and fees	0	244,247	244,247
TOTAL OPERATING REVENUES	2,498,486	244,247	2,742,733
OPERATING EXPENSES			
Instructional staff	0	30,789	30,789
Salaries and wages	2,565,316	0	2,565,316
Contract services	4,231	0	4,231
Materials and supplies	2,586,072	0	2,586,072
Other operating expenses	270,603	202,647	473,250
Depreciation expense	160,660	0	160,660
TOTAL OPERATING EXPENSES	5,586,882	233,436	5,820,318
OPERATING INCOME (LOSS)	(3,088,396)	10,811	(3,077,585)
NON-OPERATING REVENUES (EXPENSES)			
State operating grants	287,239	0	287,239
Federal operating grants	2,507,925	0	2,507,925
Donated commodities	309,046	0	309,046
Interest revenue	9,286	0	9,286
Other	11,979	0	11,979
TOTAL NON-OPERATING REVENUES (EXPENSES)	3,125,475	0	3,125,475
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	37,079	10,811	47,890
CAPITAL CONTRIBUTIONS	135,582	0	135,582
TRANSFERS	0	(52,531)	(52,531)
CHANGE IN NET ASSETS	172,661	(41,720)	130,941

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
TOTAL NET ASSETS – BEGINNING, AS ORIGINALLY STATED	1,369,721	127,734	1,497,455
PRIOR PERIOD ADJUSTMENT	201,081	0	201,081
TOTAL NET ASSETS – BEGINNING, AS RESTATED	1,570,802	127,734	1,698,536
TOTAL NET ASSETS – ENDING	\$ 1,743,463	\$ 86,014	\$ 1,829,477

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Year Ended June 30, 2003

	ENTERPRISE FUND FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 2,124,208	\$ 244,577	\$ 2,368,785
Cash payments to employees for services	(2,565,316)	(30,789)	(2,596,105)
Cash payments for contract services	(4,231)	0	(4,231)
Cash payments to suppliers for goods and services	(2,446,291)	0	(2,446,291)
Cash payments in other operating expenses	(270,603)	(183,743)	(454,346)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(3,162,233)	30,045	(3,132,188)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Nonoperating grants received	2,795,164	0	2,795,164
Other	11,979	0	11,979
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,807,143	0	2,807,143
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(125,921)	0	(125,921)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(125,921)	0	(125,921)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	9,286	0	9,286
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,286	0	9,286
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(471,725)	30,045	(441,680)
CASH AND CASH EQUIVALENTS – BEGINNING OF THE YEAR	523,609	78,197	601,806
CASH AND CASH EQUIVALENTS – END OF THE YEAR	\$ 51,884	\$ 108,242	\$ 160,126

	ENTERPRISE FUND FOOD SERVICE	OTHER Enterprise Funds	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ (3,088,396)	\$ 10,811	\$ (3,077,585)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	160,660	0	160,660
Commodities used	309,046	0	309,046
Changes in assets and liabilities:			
Receivables	(374,278)	330	(373,948)
Inventories	(160,458)	0	(160,458)
Accounts payable	(8,807)	18,904	10,097
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (3,162,233)	\$ 30,045	\$ (3,132,188)

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

The construction fund contributed \$135,582 of school food equipment purchased in the construction of the Elementary School and contributed the equipment to the school food program.

The food service fund received \$309,046 of donated commodities from the federal government.

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS June 30, 2003

	PRIVATE PURPOSE TRUST FUNDS		AGENCY FUNDS	
ASSETS				
ASSETS				
Cash	\$	165,528	\$	827,661
Accounts receivable		0		25,414
TOTAL ASSETS	\$	165,528	\$	853,075
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$	0	\$	57,168
Due to student groups		0		795,907
TOTAL LIABILITIES		0		853,075
NET ASSETS				
Held in trust for scholarships		165,528		0
TOTAL NET ASSETS		165,528		0
TOTAL LIABILITIES AND NET ASSETS	\$	165,528	\$	853,075

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Year Ended June 30, 2003

	PRIVATE PURPOSE TRUST FUNDS	
ADDITIONS Earnings on investments	\$ 4,207	
DEDUCTIONS Scholarships	 6,266	
CHANGE IN NET ASSETS	(2,059)	
NET ASSETS – BEGINNING	 167,587	
NET ASSETS – ENDING	\$ 165,528	

HARDIN COUNTY SCHOOL DISTRICT NOTES TO THE FINANCIAL STATEMENTS June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hardin County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hardin County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Hardin County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Hardin County School District Finance Corporation — The Hardin County Board of Education resolved to authorize the establishment of the Hardin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Hardin County Board of Education also comprise the Corporation's Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Government-wide Financial Statements — The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

Governmental Fund Types

The *General Fund* is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. The General Fund is a major fund.

The Special Revenue Funds account for proceeds of specific revenue sources (other than debt service, enterprise funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards included in this report. In addition, the Kentucky Education Technology System (KETS) allocation and local district matching funds are being recorded in the special revenue fund as required by the Kentucky Department of Education. These funds are restricted for the purchase of technology consistent with the District's approved technology plan. The Special Revenue Fund is a major fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and as required by Kentucky law.

Proprietary Fund Types

Enterprise Fund

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

The School Age Child Care Program is used to account for funds received from tuition fees charged for after school care of Hardin County students.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The *Educational Television Program* is used to account for funds received from production services and the sale of recorded tapes.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

• Fiduciary Fund Types (includes agency and trust funds)

Fiduciary funds account for assets held by the District in a trustees capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Agency Funds

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

Private Purpose Trust Funds

The *Private Purpose Trust Fund* is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The records of the Board are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the General Fund and Capital Projects Funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets.

The financial statements of the governmental fund types are on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid. The Proprietary Funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

Cash and Cash Equivalents

The District considers demand deposits, money market funds and other highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Inventory

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the Proprietary Funds, which records inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Description	Governmental Activities Estimated Lives
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave time when earned for all employees with more than five years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which the employees will be paid.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the Government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity

Reservations of fund balance represent amounts that are not appropriable or legally segregated for a specific purpose. Reservations of net assets are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through capital grants and capital contributions from developers, customers, or other funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September Board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues — Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivables are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September. On the modified accrual basis, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from nonexchange transactions must also be available before they can be recognized.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

In June 1999, the Government Accounting Standards Board (GASB) issued Statement No. 34 Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments (GASB 34). Statement No. 34 makes significant changes in financial reporting. Subsequent to the issuance of GASB 34, GASB issued the following standards to be implemented at the same time GASB 34 is adopted; Statement No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, Statement No. 38, Certain Financial Statement Note Disclosures and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

The District has implemented these standards effective July 1, 2002.

Statement No. 34, among other changes, adds two new "Government-Wide" (District-Wide) financial statements as basic financial statements required for all governmental units. The Statement of Net assets and the Statement of Activities are the two new required statements. Both statements are prepared on the full accrual basis. The government-wide financial statements split the District's programs between business-type and governmental activities. Previously, in accordance with accounting standards for governmental units, the District used the modified accrual basis of accounting for certain funds. The modified accrual basis of accounting continues to be the appropriate basis of accounting for governmental activity fund financial statements.

In addition, all funds are reported as governmental, proprietary or fiduciary funds. The definitions for these types of activities are discussed in other portions of Note 1.

Finally, all non-fiduciary funds are further classified as major or non-major funds. In reporting financial condition and results of operations for governmental units, the new standard concentrates on major funds versus non-major funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 2: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE (Continued)

The restatement of the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	Special			Other	
	General	Revenue	Construction	Governmental	Total
Fund equity, June 30, 2002	\$ 9,762,220	\$ 480,943	\$ 11,175,377	\$ 3,312,550	\$ 24,731,090
GASB 34 adjustments:					
Capital assets, net of depreciation					79,290,168
Long-term liabilities					(50,385,000)
Accrued compensated absences					(2,954,809)
Accrued interest payable					(994,308)
Governmental Activities Net					
Assets, June 30, 2002					\$ 49,687,141

The District had a fixed asset inventory taken to comply with GASB 34. This inventory revealed a difference in the proprietary fixed assets that was previously recorded. Changes as a result of the GASB 34 implementation are as follows:

	School Food Service	Other Enterprise	Total
Fund equity, June 30, 2002	\$ 1,369,721	\$ 127,734	\$ 1,497,455
Additional fixed assets	201,081	0	201,081
Adjusted Fund Equity, June 30, 2002	\$ 1,570,802	\$ 127,734	\$ 1,698,536

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 3: CASH

Deposits

At June 30, 2003, the carrying amounts of the District's deposits were \$21,487,973 and the bank balances were \$29,886,179. Of the bank balance, \$682,209 was covered by federal depository insurance or by collateral held by the banks in the District's name and \$1,203,970 was uninsured and uncollateralized.

The carrying amounts are reflected in the financial statements as follows:

	\$ 21 487 973
Fiduciary funds	993,189
Proprietary funds	160,126
Governmental funds	\$ 20,334,658

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consist of the following:

Receivable Fund	Payable Fund		Amount
General	Special Revenue	\$	155,409
Special Revenue	General		2,172
		\$	157,581

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 1,795,576	\$ 207,038	\$ 0	\$ 2,002,614
Construction in progress	10,180,872	7,972,426	297,860	17,855,438
Total Nondepreciable Historical Cost	11,976,448	8,179,464	297,860	19,858,052
Capital assets that are depreciated:				
Land improvements	2,617,940	0	0	2,617,940
Buildings and improvements	81,046,327	139,776	0	81,186,103
Technology equipment	11,388,056	840,988	227,659	12,001,385
Vehicles	8,771,159	652,401	0	9,423,560
General	6,167,735	191,171	0	6,358,906
Total Depreciable Historical Cost	109,991,217	1,824,336	227,659	111,587,894
Less accumulated depreciation for:				
Land improvements	1,584,303	130,900	0	1,715,203
Buildings and improvements	22,311,304	1,797,982	0	24,109,286
Technology equipment	8,105,583	1,511,442	182,092	9,434,933
Vehicles	5,769,936	561,031	0	6,330,967
General	4,906,371	219,222	0	5,125,593
Total Accumulated Depreciation	42,677,497	4,220,577	182,092	46,715,982
Total Depreciable Historical Cost, Net	67,313,720	(2,396,241)	45,567	64,871,912
Governmental Activities, Capital Assets, Net	\$ 79,290,168	\$ 5,783,223	\$ 343,427	\$ 84,729,964

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) June 30, 2003

NOTE 5: CAPITAL ASSETS (Continued)

	Beginning Balance	Additions	Disposals	Ending Balance
Business-Type Activities:				
Capital assets that are not depreciated:				
Land	\$ 16,790	\$ 0	\$ 0	\$ 16,790
Total Nondepreciable Historical Cost	16,790	0	0	16,790
Capital assets that are depreciated:				
Land improvements	20,202	0	0	20,202
Buildings	318,523	0	0	318,523
Technology equipment	166,044	2,065	0	168,109
Vehicles	59,512	0	0	59,512
General	2,435,281	259,439	0	2,694,720
Total Depreciable Historical Cost	2,999,562	261,504	0	3,261,066
Less accumulated depreciation for:				
Land improvements	17,678	1,010	0	18,688
Buildings	228,644	6,371	0	235,015
Technology equipment	82,387	30,403	0	112,790
Vehicles	38,768	7,542	0	46,310
General	1,823,099	115,335	0	1,938,434
Total Accumulated Depreciation	2,190,576	160,661	0	2,351,237
Total Depreciable Historical Cost, Net	808,986	100,843	0	909,829
Business-Type, Capital Assets, Net	\$ 825,776	\$ 100,843	\$ 0	\$ 926,619

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 3,151,860
District administration	38,971
School administration	124,759
Facilities operations	52,215
Student transportation	547,082
Central office	305,690

Total Depreciation Expense \$ 4,220,577

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date and interest rates are summarized below:

Issue Date	Proceeds	Rates
December 1993	\$ 4,700,000	3.00%—5.88%
July 1996	4,665,000	4.00%—6.00%
September 1998	15,885,000	3.50%—4.25%
February 2000	19,760,000	5.00%—5.75%
July 2001A	9,405,000	4.10%—4.75%
July 2001B	2,415,000	3.75%—4.25%
December 2002	2,915,000	3.75%—4.25%

On September 1, 2002, the District issued \$2,915,000 in general obligation bonds with interest rates ranging from 1.25% to 3.20% to partially advance refund \$2,720,000 of outstanding December 1993 bonds with interest rates ranging from 3.00% to 5.88%. The net proceeds of \$2,845,156 were used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the December 1993 bonds. As a result, \$2,720,000 of the December 1993 bond issue is considered defeased and the liability has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt by \$125,156. The difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2013 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next ten years by \$379,690 and to obtain an economic gain of \$329,210.

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Funds, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hardin County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS (Continued)

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

		County District	School Facility Construction Commission		Total Debt	
Year	Interest	Principal	Interest	Principal	Service	
2003—2004	\$ 1,763,425	\$ 1,316,527	\$ 621,385	\$ 1,363,473	\$ 5,064,810	
2004—2005	1,610,994	1,370,415	505,800	1,419,585	4,906,794	
2005—2006	1,556,003	1,420,476	449,062	1,474,524	4,900,065	
2006—2007	1,497,757	1,483,942	388,625	1,536,058	4,906,382	
2007—2008	1,435,560	1,546,075	324,363	1,598,925	4,904,923	
2008—2009	1,369,324	1,612,649	256,532	1,662,351	4,900,856	
2009—2010	1,300,386	1,679,856	185,093	1,730,144	4,895,479	
2010—2011	1,231,554	1,747,142	131,907	767,858	3,878,461	
2011—2012	1,157,019	1,845,292	105,600	354,708	3,462,619	
2012—2013	1,064,895	1,939,537	89,850	330,463	3,424,745	
2013—2014	969,423	2,072,266	75,567	232,734	3,349,990	
2014—2015	857,953	2,183,925	62,094	246,075	3,350,047	
2015—2016	739,964	2,299,468	47,636	260,532	3,347,600	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 6: GENERAL LONG-TERM OBLIGATIONS (Continued)

		County District	School Facility Construction Commission		Total Debt	
Year	Interest	Principal	Interest	Principal	Service	
2016—2017	615,413	2,426,406	33,593	233,594	3,309,006	
2017—2018	491,042	2,549,367	23,489	130,633	3,194,531	
2018—2019	354,620	2,687,182	16,305	137,818	3,195,925	
2019—2020	205,495	2,834,259	8,380	145,741	3,193,875	
2020—2021	48,094	675,000	0	0	723,094	
2021—2022	16,031	675,000	0	0	691,031	
	\$ 18,284,952	\$ 34,364,784	\$ 3,325,281	\$ 13,625,216	\$ 69,600,233	

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance July 1, 2002	Increase	Decrease	Balance June 30, 2003	Amounts Due Within One Year
Government activities:					
Bonds and notes payable:					
General obligation debt	\$ 50,385,000	\$ 2,915,000	\$ (5,310,000)	\$ 47,990,000	\$ 2,680,000
Less deferred issuance discounts and premiums	0	(32,769)	1,911	(30,858)	0
Less deferred amount on refundings	0	(125,156)	7,301	(117,855)	0
Total Bonds and Notes Payable	50,385,000	2,757,075	(5,300,788)	47,841,287	2,680,000
Other liabilities:					
Compensated absences	2,954,809	590,032	(327,000)	3,217,841	350,000
Total Other Liabilities	2,954,809	590,032	(327,000)	3,217,841	350,000
Total Long-Term Liabilities	\$ 53,339,809	\$ 3,347,107	\$ (5,627,788)	\$ 51,059,128	\$ 3,030,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 7: PENSION PLANS

Plan Descriptions. The Hardin County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issues a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy. KTRS and CERS plan members are required to contribute 9.855% and 5.00%, respectively, of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS and CERS is 13.105% and 6.34% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2003, 2001 and 2000 were \$808,638, \$806,906 and \$855,802, respectively, equal to the required contributions for each year.

The amount recognized for revenues and expenditures/expenses for on-behalf payments relating to fringe benefits for the year ended June 30, 2003 was \$11,055,502 for governmental funds and \$213,944 for proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 8: CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 9: INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 10: RISK MANAGEMENT (Continued)

pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11: EXCESS EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Fund		Amount			
Technology	\$	660,756			
Construction	•	7,088,156			
Educational Television		4,784			
Family Resource Centers		46,737			
Community Education		5,794			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

NOTE 12: FUND TRANSFERS

Fund transfers for the year ended June 30, 2003 consist of the following:

Туре	From Fund	To Fund	Purpose	Amoun	ıt
Operating	General	Construction	Construction	\$ 303,	420
Operating	General	Special Revenue	Matching	97,	025
Operating	FSPK	Debt Service	Debt Service	2,988,	590
Operating	Technology	Special Revenue	Equity	660,	756
Operating	Family Resource Centers	General Fund	Equity	46,	,737
Operating	Community Education	General Fund	Equity	5,	794

Required Supplemental Information

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HARDIN COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE GENERAL FUND

For the Year Ended June 30, 2003

	BUDGETE	D AMOUNTS		VARIANCES FAVORABLE (UNFAVORABLE)	
	ORIGINAL	FINAL	ACTUAL (GAAP BASIS)	FINAL TO ACTUAL	
REVENUES					
Local and intermediate sources	\$ 16,645,403	\$ 17,211,490	\$ 18,330,114	\$ 1,118,624	
State programs	41,450,000	41,450,000	53,510,734	12,060,734	
Federal programs	220,000	220,000	295,934	75,934	
TOTAL REVENUES	58,315,403	58,881,490	72,136,782	13,255,292	
EXPENDITURES					
Current:					
Instruction	37,121,749	38,137,592	42,708,970	(4,571,378)	
Support services:					
Student	3,770,642	3,822,061	4,301,584	(479,523)	
Instructional staff	2,478,997	2,439,822	3,021,039	(581,217)	
District administration	3,068,438	3,075,278	847,977	2,227,301	
School administration	4,128,590	4,093,594	4,603,932	(510,338)	
Business	1,338,384	1,512,577	1,087,347	425,230	
Plant operations and maintenance	7,146,264	7,145,301	5,994,017	1,151,284	
Student transportation	4,719,250	4,801,633	4,779,333	22,300	
Central office	2,009,584	2,159,177	1,952,309	206,868	
Non-instructional	70,213	70,213	76,860	(6,647)	
Other	16,916	87,690	207,646	(119,956)	
TOTAL EXPENDITURES	65,869,027	67,344,938	69,581,014	(2,236,076)	
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(7,553,624)	(8,463,448)	2,555,768	11,019,216	

OTHER FINANCING SOURCES (USES)

Operating transfers	(480,000)	(221,639)	(347,914)	(126,275)
TOTAL OTHER FINANCING SOURCES (USES)	(480,000)	(221,639)	(347,914)	(126,275)
NET CHANGE IN FUND BALANCE	(8,033,624)	(8,685,087)	2,207,854	10,892,941
FUND BALANCES – BEGINNING	9,762,220	9,762,220	9,762,220	0
FUND BALANCES – ENDING	\$ 1,728,596	\$ 1,077,133	\$ 11,970,074	\$ 10,892,941

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Total Expenditures as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds	\$ 69,581,014
On-behalf payments recorded under GAAP basis not included in budget amounts	 11,055,502
Differences — budget to GAAP:	
Actual amounts (budgetary basis)	\$ 58,525,512
Outflows/expenses:	
in Fund Balances — Governmental Funds	\$ 72,136,782
Total Revenues as Reported on Statement of Revenues, Expenditures and Changes	
On-behalf payments recorded under GAAP basis not included in budget amounts	 11,055,502
Differences — budget to GAAP:	
Actual amounts (budgetary basis)	\$ 61,081,280
Inflows/revenues:	

Supplemental Information

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HARDIN COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS June 30, 2003

	c	CAPITAL PROJECTS FUN			
	SEEK FUND	FSPK FUND	TECHNOLOGY FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS					
Cash	\$ 1,837,102	\$ 269,798	\$ 0	\$ 1,143,161	\$ 3,250,061
TOTAL ASSETS	\$ 1,837,102	\$ 269,798	\$ 0	\$ 1,143,161	\$ 3,250,061
LIABILITIES AND FUND BALANCES					
LIABILITIES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	0	0	0	0	0
FUND BALANCES					
Reserved for:					
SFCC	550,230	0	0	0	550,230
Debt service	0	0	0	1,143,161	1,143,161
Unreserved	1,286,872	269,798	0	0	1,556,670
TOTAL FUND BALANCES	1,837,102	269,798	0	1,143,161	3,250,061
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,837,102	\$ 269,798	\$ 0	\$ 1,143,161	\$ 3,250,061

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HARDIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2003

		CAPITAL PROJECTS FUN			
	SEEK FUND	FSPK FUND	TECHNOLOGY FUND	DEBT SERVICE FUND	TOTAL OTHER GOVERNMENTAL FUNDS
REVENUES					
From local sources:					
Taxes:					
Property	\$ 0	\$ 1,806,335	\$ 0	\$ 0	\$ 1,806,335
Intergovernmental — state	1,195,740	1,452,053	0	1,929,536	4,577,329
TOTAL REVENUES	1,195,740	3,258,388	0	1,929,536	6,383,664
EXPENDITURES					
Current:					
Plant operations and maintenance	578,850	0	0		578,850
Debt service:					
Principal	0	0	0	2,590,000	2,590,000
Interest	0	0	0	2,316,296	2,316,296
Bond issuance costs	0	0	0	37,075	37,075
Facilities acquisition and construction	300,251	0	0	0	300,251
TOTAL EXPENDITURES	879,101	0	0	4,943,371	5,822,472
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	316,639	3,258,388	0	(3,013,835)	561,192
OTHER FINANCING SOURCES (USES)					
Refunding bond proceeds	0	0	0	2,882,231	2,882,231
Payment to escrow agent	0	0	0	(2,845,156)	(2,845,156)
Operating transfers	0	(2,988,590)	(660,756)	2,988,590	(660,756)
TOTAL OTHER FINANCING SOURCES (USES)	0	(2,988,590)	(660,756)	3,025,665	(623,681)
NET CHANGE IN FUND BALANCE	316,639	269,798	(660,756)	11,830	(62,489)
FUND BALANCES – BEGINNING	1,520,463	0	660,756	1,131,331	3,312,550
FUND BALANCES – ENDING	\$ 1,837,102	\$ 269,798	\$ 0	\$ 1,143,161	\$ 3,250,061

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HARDIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF NET ASSETS NONMAJOR PROPRIETARY FUNDS ENTERPRISE FUNDS June 30, 2003

	HOOL AGE ILD CARE	UCATIONAL ELEVISION		FAMILY RESOURCE CENTERS	COMMUNITY EDUCATION		TOTAL OTHER ENTERPRISE FUNDS
ASSETS							
CURRENT ASSETS							
Cash	\$ 90,088	\$ 18,154	\$	0	\$ 0	\$	108,242
Accounts receivable:							
Accounts	 130	 239	_	0	 0		369
TOTAL ASSETS	\$ 90,218	\$ 18,393	\$	0	\$ 0	\$	108,611
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts payable	\$ 4,204	\$ 18,393	\$	0	\$ 0	\$	22,597
TOTAL CURRENT LIABILITIES	4,204	18,393		0	0	_	22,597
NET ASSETS							
Unrestricted	86,014	0		0	0		86,014
TOTAL NET ASSETS	86,014	0		0	0		86,014
TOTAL LIABILITIES AND NET ASSETS	\$ 90,218	\$ 18,393	\$	0	\$ 0	\$	108,611

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HARDIN COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR PROPRIETARY FUNDS ENTERPRISE FUNDS

For the Year Ended June 30, 2003

	SCHOOL AGE CHILD CARE	EDUCATIONAL TELEVISION	FAMILY RESOURCE CENTERS	COMMUNITY EDUCATION	TOTAL OTHER ENTERPRISE FUNDS
OPERATING REVENUES					
Tuition and fees	\$ 218,242	\$ 26,005	\$ 0	\$ 0	\$ 244,247
TOTAL REVENUES	218,242	26,005	0	0	244,247
OPERATING EXPENSES					
Instructional staff	0	30,789	0	0	30,789
Other operating expenses	202,647	0	0	0	202,647
TOTAL EXPENSES	202,647	30,789	0	0	233,436
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	15,595	(4,784)	0	0	10,811
TRANSFERS	0	0	(46,737)	(5,794)	(52,531)
CHANGE IN NET ASSETS	15,595	(4,784)	(46,737)	(5,794)	(41,720)
TOTAL NET ASSETS – BEGINNING	70,419	4,784	46,737	5,794	127,734
TOTAL NET ASSETS – ENDING	\$ 86,014	\$ 0	\$ 0	\$ 0	\$ 86,014

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES ALL SCHOOL ACTIVITY FUNDS ALL AGENCY FUNDS

For the Year Ended June 30, 2003

ASSETS	BALANCE JULY 1, 2002		 ADDITIONS	<u>D</u>	EDUCTIONS	BALANCE NE 30, 2003
Cash	\$	777,476 12,597	\$ 2,571,720 25,414	\$	2,521,535 12,597	\$ 827,661 25,414
TOTAL ASSETS	\$	790,073	\$ 2,597,134	\$	2,534,132	\$ 853,075
LIABILITIES						
Accounts payable Due to student groups	\$	57,153 732,920	\$ 57,168 2,539,966	\$	57,153 2,476,979	\$ 57,168 795,907
TOTAL LIABILITIES	\$	790,073	\$ 2,597,134	\$	2,534,132	\$ 853,075

HARDIN COUNTY SCHOOL DISTRICT STATEMENT OF ASSETS AND LIABILITIES SCHOOL ACTIVITY FUNDS CENTRAL HARDIN HIGH SCHOOL June 30, 2003

	ASH 30, 2003	ACCOUN RECEIVAE		ACCOUNTS PAYABLE	G	O STUDENT ROUPS E 30, 2003
Athletic Fund	\$ 516	\$	0	\$ 250	\$	266
Baseball	2,949		0	2,903		46
Boys Basketball	1,945		0	0		1,945
Cheerleaders	6,658		0	5,136		1,522
Concessions Athletic	146		0	0		146
Cross Country	895		0	0		895
Football	7,199		0	6,112		1,087
Girls Basketball	576		0	0		576
Golf	95		0	95		0
Matmaids	845		0	0		845
Soccer Boys	837		0	580		257
Soccer Girls	1,458		0	1,199		259
Softball	38		0	38		0
Tennis	219		0	219		0
Track Boys	985		0	0		985
Track Girls	1,422		0	0		1,422
Volleyball	602		0	0		602
Wrestling	148		0	70		78
Agriculture Department	561		0	0		561
Art Club	355		0	0		355
Art Department	22		0	0		22
BAD Club	191		0	0		191
Band	335		0	0		335
Beta Club	1,918		0	0		1,918
Bookstore	1,701		0	51		1,650
Bruin Education Club	79		0	0		79
Business Education Department	991		0	0		991
Chorus	1,281		0	0		1,281
Close Up Foundation	148		0	0		148
Counseling Department	1,745		0	0		1,745
English Club	110		0	0		110
English Department	722		0	5		717
Faculty Flower Fund	117		0	88		29
Faculty Gift Fund	59		0	0		59
FBLA	1,967		0	304		1,663
FFA	3,082		0	1,242		1,840

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
FHA	1,370	0	0	1,370
French Club	75	0	0	75
German Club	39	0	0	39
Grade 10	51	0	0	51
Grade 11	6	0	0	6
Grade 12	2,311	0	200	2,111
FACS	153	0	0	153
Junior ROTC	398	0	0	398
Junior Beta Club	285	0	0	285
Library	1,934	0	0	1,934
Math Department	1,648	0	0	1,648
Physical Education	5,482	0	5,297	185
Project Graduation	2,014	0	1,944	70
School Concessions Student	221	0	0	221
School Concessions Faculty	549	0	0	549
School Fund	2,829	0	1,919	910
Science Department	74	0	0	74
Social Studies Department	484	0	0	484
Spanish Club	1,061	0	0	1,061
Special Education	116	0	0	116
Speech/Debate	409	0	0	409
Student Council	774	0	0	774
Tech Ed Department	236	0	0	236
Textbooks	507	0	0	507
TMH Department	483	0	0	483
TSA Club	2,484	0	539	1,945
Y Club	935	0	0	935
Yearbook	2,558	0	139	2,419
Youth In Charge	1,958	0	117	1,841
TOTAL	\$ 74,361	\$ 0	\$ 28,447	\$ 45,914

HARDIN COUNTY SCHOOL DISTRICT STATEMENT OF ASSETS AND LIABILITIES SCHOOL ACTIVITY FUNDS NORTH HARDIN HIGH SCHOOL June 30, 2003

	CASH JUNE 30, 2003		ACCOUNTS RECEIVABLE		ACCOUNTS PAYABLE		DUE TO STUDENT GROUPS JUNE 30, 2003	
Athletic Fund	\$	1,004	\$	636	\$	586	\$	1,054
Athletic Uniforms		22,273		0		0		22,273
Baseball		1,836		0		0		1,836
Boys Basketball		537		0		0		537
Cheerleaders Blue Squad		0		1,411		0		1,411
Cross Country Boys		3,499		0		0		3,499
Cross Country Girls		1,823		0		0		1,823
Football		1,840		0		0		1,840
Girls Basketball		3,786		0		0		3,786
Golf		1,019		0		0		1,019
Matmaids		1,434		0		0		1,434
Softball		3,235		0		0		3,235
Soccer Boys		4,723		0		0		4,723
Soccer Girls		4,224		0		0		4,224
Swimming		3,580		0		0		3,580
Tennis		1,518		0		0		1,518
Track Boys		5,613		0		0		5,613
Track Girls		3,414		0		0		3,414
Volleyball		2,292		0		0		2,292
Wrestling		1,454		0		0		1,454
Agriculture Department		4,259		0		0		4,259
Academic Team		1,014		0		0		1,014
Art Department		23		0		0		23
Art Club		1,112		0		0		1,112
Band		5,911		0		594		5,317
Bingo Fund		28,259		0		3,581		24,678
B & G Drill Team		892		0		0		892
Chess Club		66		0		0		66
Chorus		1,302		0		346		956
Counseling Department		3,198		0		59		3,139
Drama Club		943		0		0		943
English Department		180		0		0		180
Faculty Concessions		1,800		1,861		0		3,661
FBLA		551		0		0		551

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
FCA	369	0	0	369
Family & Consumer Sc	2,077	0	0	2,077
Future Educators of America	99	0	0	99
FFA	3,895	363	0	4,258
FCCLA	4,671	263	0	4,934
Foreign Language Department	0	533	0	533
French Club	889	0	0	889
German Club	1,357	0	0	1,357
Grade 11	296	0	0	296
Grade 12	3,013	0	0	3,013
Instructional/Oper	1,052	2,500	0	3,552
Journalism	610	0	0	610
J ROTC	3,542	0	0	3,542
JROTC Color Guard	1,197	0	0	1,197
Jr. ROTC Rifle Team	1,383	0	0	1,383
KJHS Club	982	0	0	982
Karate Club	3	0	0	3
Library	1,685	0	0	1,685
Math Department	1,437	0	0	1,437
National Honor Society	4,590	0	0	4,590
Nurse	54	0	0	54
Pep Club	1,356	0	0	1,356
Photography Club	120	0	0	120
Physical Education Department	231	0	0	231
SADD	247	0	0	247
Science Department	120	0	0	120
Science Club	1,129	0	0	1,129
School Concessions	5,737	49	0	5,786
School Fund	2,382	1,685	0	4,067
School Store	1,281	0	0	1,281
Spanish Club	1,232	0	0	1,232
Spanish Travel	7	0	0	7
Special Education Department	908	800	0	1,708
Student Council	2,891	0	0	2,891
Student Support Service	50	0	0	50
Science Class — Wolfe	156	0	0	156
Tech Ed Department	679	0	0	679
TSA Club	4,270	987	2,033	3,224
Textbooks	210	0	0	210
Travel	109	0	0	109
Witten Scholarship	649	0	0	649
Y Club	461	0	0	461
Yearbook	0	40	0	40
Youth In Charge	489	0	0	489
TOTAL	\$ 176,529	\$ 11,128	\$ 7,199	\$ 180,458

HARDIN COUNTY SCHOOL DISTRICT STATEMENT OF ASSETS AND LIABILITIES SCHOOL ACTIVITY FUNDS JOHN HARDIN HIGH SCHOOL June 30, 2003

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Boys Basketball	\$ 2,378	\$ 0	\$ 0	\$ 2,378
Three Point Club	5,419	0	0	5,419
Girls Basketball	2,252	0	0	2,252
Cheerleading	38	0	38	0
Cross Country	408	0	0	408
Football Fundraising	2,481	0	119	2,362
Matmaids	605	0	0	605
Soccer Boys	107	0	0	107
Soccer Girls	540	0	0	540
Softball	294	0	160	134
Track	228	60	288	0
Wrestling	15	0	0	15
Agriculture Department	7,549	0	97	7,452
Band	866	0	866	0
Chorus	1	0	0	1
Counseling Department	1,701	0	35	1,666
English Department	18	0	0	18
Family & Consum	1	0	0	1
Grade 10	1,133	0	0	1,133
Grade 11	492	0	0	492
Grade 12	137	0	0	137
Journalism	302	0	0	302
JROTC	2,770	0	0	2,770
Library Media Center	1,745	0	0	1,745
Math Department	628	0	146	482
Science Department	93	0	0	93
Social Studies Department	123	0	0	123
Special Education	70	0	0	70
Speech	0	505	0	505
Technology Student Association	235	0	0	235
Tech Education Department	365	0	0	365
Textbooks	288	0	0	288
Yearbook	3,848	0	0	3,848
Faculty Concessions	1,811	0	156	1,655
Faculty Awards	1,000	0	0	1,000
Project Graduation	2,619	0	234	2,385

	CASH JUNE 30, 2003	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS JUNE 30, 2003
Scholarship	361	0	0	361
School Concessions	40	0	0	40
Student School Fund	109	1,648	290	1,467
Art Club	40	0	0	40
Drama Club	279	0	0	279
FBLA	401	929	0	1,330
FCA	413	0	0	413
FEA	50	100	0	150
FFA	1,966	0	1,855	111
FCCLA	255	0	0	255
International Club	271	0	0	271
National Honor Society	556	0	0	556
SADD Club	56	0	0	56
School Store	10	0	0	10
Student Council	552	0	0	552
Y Club	257	0	0	257
General Funds	137	1,756	84	1,809
TOTAL	\$ 48,313	\$ 4,998	\$ 4,368	\$ 48,943

HARDIN COUNTY SCHOOL DISTRICT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2003

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed-Through State Department of Education:			
School Breakfast Program	10.553		\$ 490,993
National School Lunch Program	10.555		81,804
Summer Meals and Summer Sponsor	10.559		1,935,128
Passed-Through State Department of Agriculture:			
Food Distribution Program	10.555		309,046
TOTAL U.S.	DEPARTMENT C	F AGRICULTURE	2,816,971
U.S. DEPARTMENT OF DEFENSE			
Received Direct From Defense Finance and Accounting Service:			
Junior ROTC	12.000	5043	135,275
TOTAL	U.S. DEPARTM	ENT OF DEFENSE	135,275
U.S. DEPARTMENT OF EDUCATION			
Passed-Through State Department of Education:			
Title I — 2002	84.010	3102	251,073
Title I — 2003	84.010	3103	1,618,563
Title I — Neglected/Delinquent Child	84.013	3132	594
Title I — Neglected/Delinquent Child	84.013	3133	28,154
Migrant Education — Basic Grant — 2002	84.011	3112	78,591
Migrant Education — Basic Grant — 2003	84.011	3113	58,418
Title I — Delinquent Child — 2002	84.013	3142	10,083
Title I — Delinquent Child — 2003	84.013	3143	28,867
IDEA — Part B Special Education — 2002	84.027	3372	135,937
IDEA — Part B Special Education — 2003	84.027	3373	1,843,679
IDEA — Discretionary	84.027	3363	15,620
Vocational Education — Title IIC — Basic	84.048	3483	119,177
Vocational Education — Perkins — Carryforward	84.048	3482A	2,548
IDEA — Part B — Preschool — 2003	84.173	3433	131,603
21st Century Community Learning Center	84.287	5503	9,379
Educational Technology — Tech Literacy Challenge Fund — 2002	84.318	3852	14,433
Advance Placement (K-APIP)	84.33	3953	1,250
Title VI — Class Size Reduction Program — 2002	84.340	3882	17,833
Improving Teacher Quality	84.367	4013	574,492

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	MUNIS NUMBER	FEDERAL EXPENDITURES
Title IV — Safe & Drug Free Schools — 2001	84.186A	4061	3,578
Title IV — Safe & Drug Free Schools — 2002	84.186A	4062	48,365
Title IV — Safe & Drug Free Schools — 2003	84.186A	4063	22,633
Title II — Eisenhower PD Program — 2002	84.281A	4042	44,435
Title VI — Innovative Ed — 2002	84.298A	3312	896
Title V — Innovative Ed Program Strategies	84.298A	3343	74,200
Title I — School Improvement Funds	84.348	3203	22,910
Limited English Proficiency	84.031	3453	9,180
Title II D — Education Technology	84.318	4253	32,638
Title IV — KY School Counseling Int	84.186	4061C	4,790
Passed-Through Cabinet for Workforce Development:			
Adult Education — Basic Grant	84.002	3733	129,141
Adult Education — Institutional Corrections	84.002	3803	18,065
Adult Education — Staff Development	84.002	3733S	5,937
Adult Education — Development Funds	84.002	3653	57,260
Adult Education — 353 Demonstration Grant	84.002	3673	5,335
Passed-Through Division of State Valuation:			
Impact Aid	84.041	_	295,934
TOTAL U.	S. DEPARTMEN	T OF EDUCATION	5,715,591
U.S. DEPARTMENT OF JUSTICE			
Passed-Through State Department of Education:			
Challenge Grant — Truancy Reduction and Alternatives	16.549	5013	16,283
TOTAL	L U.S. DEPARTM	IENT OF JUSTICE	16,283
U.S. DEPARTMENT OF LABOR			
Passed-Through State Department of Education:			
Employment Services & Job Training — 2002	17.249	5942	5,333
Jobs for Kentucky Graduates	17.25	3823	24,000
тот	AL U.S. DEPART	MENT OF LABOR	29,333
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES ADMINISTRATION FOR CHILDREN AND FAMILIES			
Passed-Through State Department of Education:			
CVH Wellness Minigrant	93.945	4223	1,000
TOTAL U.S. DEPARTMENT OF ADMINISTRATIO		UMAN SERVICES EN AND FAMILIES	1,000
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 8,714,453

HARDIN COUNTY SCHOOL DISTRICT NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of *Hardin County School District* and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS For the Year Ended June 30, 2003

None.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits Members of the Board of Education Hardin County School District Elizabethtown, Kentucky

We have audited the financial statements of *Hardin County School District* (the "District") as of and for the year ended June 30, 2003, and have issued our report thereon dated August 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the *Independent Auditors' Contract—State Audit Requirements*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated August 22, 2003.

This report is intended solely for the information and use of the members of the *Hardin County Board of Education*, Kentucky State Committee for School District Audits, management of the *Hardin County School District*, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAS, PSC

Bowling Green, Kentucky August 22, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits Members of the Board of Education Hardin County School District Elizabethtown, Kentucky

Compliance

We have audited the compliance of *Hardin County School District* (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the *Independent Auditors' Contract—General Audit Requirements*, Appendix II of the *Independent Auditors' Contract—State Audit Requirements* and Appendix III of the *Independent Auditors' Contract—Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain

reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

• Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the *Hardin County Board of Education*, Kentucky State Committee for School District Audits, management of the *Hardin County School District*, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAS, PSC

Bowling Green, Kentucky August 22, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2003

SECTION I — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified		
Internal control over financial reporting:		
Material weakness(es) identified?	□ Yes	□ No
Reportable condition(s) identified that are not considered to be material weakness(es)?	□ Yes	☐ None reported
Noncompliance material to financial statements noted?	□ Yes	∐ No
Federal Awards		
Internal control over major programs:		
Material weakness(es) identified?	□ Yes	□ No
Reportable condition(s) identified that are not considered to be material weakness(es)?	□ Yes	☐ None reported
Type of auditors' report issued on compliance for major programs: unqualified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	□ Yes	∐ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED) For the Year Ended June 30, 2003

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster	
10.553 / 10.555 / 10.559	Child Nutrition Cluster	
84.010	Title I	
84.027	IDEA B — Basic	
84.173	IDEA B — Preschool	
84.367	Improving Teacher Quality	
Dollar threshold used to disting between type A and type B programmed Auditee qualified as low-risk auditee qualified as Iow-risk auditee Tinancial Statement	grams: \$300,000 ditee? □ Yes Ū No	
Summary		
None.		
SECTION III — FEDERAL AWARD FINDI Summary None.	NGS AND QUESTIONED COSTS	



Kentucky State Committee for School District Audits Members of the Board of Education Hardin County School District Elizabethtown, Kentucky

In planning and performing our audit of the financial statements of *Hardin County School District* (the "District") for the year ended June 30, 2003, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. Comments from the prior year that have not been corrected will be listed in this letter. A separate report dated August 22, 2003 contains our report on the District's internal control. This letter does not affect our report dated August 22, 2003 on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Holland CPAS, PSC

Bowling Green, Kentucky August 22, 2003

COMMENTS AND RECOMMENDATIONS

For the Year Ended June 30, 2003

Cash Deposits

U During our testing of cash, we noted the District has deposits that were unsecured. These deposits were for debt service and student activity funds. We suggest deposits be monitored to ensure all are secured.

All Schools

U During our test of disbursements and interview process, we discovered studentgenerated monies and non-student-generated monies were commingled. We also noted there are student-generated monies being used to pay for disbursements that are the responsibility of the Board. As prescribed by the KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book"):

"The SBDM Council has the authority to determine the use of school general activity funds from bookstore sales, snack and beverage sales and other office activity funds not raised by a school organization for a specific purpose. These sales are mainly to students. Therefore, the profits must be used for the benefit of students and not for the school's physical operating expenses that are the responsibility of the local Board."

The only funds that could be used for the school's physical operating expenses would be those generated by teachers/faculty/staff or other non-student-generated monies.

North Hardin High School

- U During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.
- U During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds, ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.

COMMENTS AND RECOMMENDATIONS (CONTINUED)

For the Year Ended June 30, 2003

North Hardin High School (Continued)

U We reviewed the Kentucky Revised Statutes regarding gaming laws due to the BINGO fund on the school's AFR. We also inquired of the gaming office. The schools are required to have a separate bank account for the BINGO funds. We understand that KDE does not allow school's to have more than one bank account; however, since the KRS states that a separate bank account should be maintained, we recommend the school have a separate bank account for the BINGO funds.

John Hardin High School

U During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

East Hardin Middle School

- U During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.
- U During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

Radcliff Middle School

U During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

COMMENTS AND RECOMMENDATIONS (CONTINUED)

For the Year Ended June 30, 2003

West Hardin Middle School

- U During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.
- U During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds, ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.
- U During our review of the Annual Financial Report, it came to our attention that the Yearbook fund has a deficit balance when accounts payable is taken into consideration. Accounts payable should be considered at year end to determine if funds should be transferred to avoid deficit balances.

• J. T. Alton Middle School

U During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

Bluegrass Middle School

- U During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.
- U During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.
- U During our review of receipts, it came to our attention that receipts were not issued for each receipt of cash. Issuing a receipt for each receipt of cash will ensure cash receipts are properly documented.

COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

Howevalley Elementary School

U During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

New Highland Elementary School

- U During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.
- U During our review of disbursements, we noted the receipt of merchandise was not documented. We recommend the person receiving the merchandise document the quantity and date of receipt on the invoice, packing slip or purchase order. This will help ensure the treasurer properly pays for only the amounts received.

• G. C. Burkhead Elementary School

- U During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.
- U During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds, ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected

Sonora Elementary

- U During our review of disbursements, we noted the receipt of merchandise was not documented. We recommend the person receiving the merchandise document the quantity and date of receipt on the invoice, packing slip or purchase order. This will help ensure the treasurer properly pays for only the amounts received.
- U During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

COMMENTS AND RECOMMENDATIONS (CONTINUED)
For the Year Ended June 30, 2003

Sonora Elementary (Continued)

U During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds, ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.

Woodland Elementary

U During our review of the Annual Financial Report, it came to our attention that the Agenda and the Yearbook funds have deficit balances when accounts payable are taken into consideration. Accounts payable should be considered at year end to determine if funds should be transferred to avoid deficit balances.

BOARD OF EDUCATION

J.R. Cardin, Chairperson Byron Nelson, Vice Chairperson Kathryn Deveau, Member Joseph F. Fowler, Member Michael Martin, Member



SUPERINTENDENT Richard Hughes, Ed.D.

ASSOCIATE SUPERINTENDENT FINANCE/SUPPORT SERVICES William S. Day

DIRECTOR OF FINANCEPaula Skaggs

HARDIN COUNTY SCHOOLS

65 W.A. Jenkins Road	Elizabethtown, Kentucky 42701	Phone: (270) 769-8800	
		FAX: (270) 769-8889	

October 29, 2003

HARDIN COUNTY SCHOOLS RESPONSE TO THE FY 2003 AUDITOR'S MANAGEMENT LETTER

Cash Deposits

During our testing of cash, we noted the District has deposits that were unsecured. These deposits were for debt service and student activity funds. We suggest deposits be monitored to ensure all are secured.

This was an oversight on the part of the District because of multiple school accounts in one bank. The District will monitor carefully.

All Schools

During our test of disbursements and interview process, we discovered student-generated monies and non-student-generated monies were co-mingled. We also noted there are student-generated monies being used to pay for disbursements that are the responsibility of the Board. As prescribed by the KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book"):

"The SBDM Council has the authority to determine the use of school general activity funds from bookstore sales, snack and beverage sales and other office activity funds not raised by a school organization for a specific purpose. These sales are mainly to students. Therefore, the profits must be used for the benefit of students and not for the school's physical operating expenses that are the responsibility of the local Board."

The only funds that could be used for the school's physical operating expenses would be those generated by teachers/faculty/staff or other non-student-generated monies.

The District will continue to work with schools on separating non-student-generated monies in the activity funds.

"Hardin County Schools: a work in progress as evidenced by the chipping away, in pursuit of continuous improvement in student achievement, of anything that does not resemble a World Class School System."

Equal Educational and Employment Institution

North Hardin High School

During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

The bookkeeper's initials were the ones that were missing. She writes up all the deposits and has never been told to initial the deposit ticket. Since the audit, there have been two sets of initials on every deposit ticket.

During our review of receipts, we noted that the deposit had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.

If monies were not deposited in a timely manner, it was due to a school break and/or illness.

We reviewed the Kentucky Revised Statutes regarding gaming laws due to the BINGO fund on the school's AFR. We also inquired of the gaming office. The schools are required to have a separate bank account for the BINGO funds. We understand that KDE does not allow school's to have more than one bank account; however, since the KRS states that a separate bank account should be maintained, we recommend the school have a separate bank account for the BINGO funds.

Bingo funds are maintained in a separate account within our school fund account and receive a monthly statement like all other activity funds. If KDE and KRS issues conflict, it should be resolved at their level. Either way we are breaking a rule.

John Hardin High School

During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

In order to prevent a signature oversight, the individual signing the Purchase Request will review the entire group of Purchase Requests after signing them to make sure the proper signature is in the appropriate location on each Purchase Request.

East Hardin High School

During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.

The staff at East Hardin will make deposits in a timely manner.

During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

This concern was not brought up during our interview process with the auditor and we at East Hardin were not aware that this had occurred. The staff at East Hardin do an excellent job of filling out the correct paperwork for purchases and we feel the failure to sign a purchase request has seldom occurred. However, for future purchases a Purchase Request will be signed by the person/sponsor requesting the purchase order.

Radcliff Middle School

During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

In the future to request a purchase order that person/sponsor must first sign for the purchase order before any action can take place.

West Hardin Middle School

During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

We are having two persons counting the cash. The neglect is having both parties initial. The failure to do so has been corrected and two individuals will count and initial the cash count.

During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds, ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.

Deposits are now being made on a more timely manner resulting in more frequent and smaller deposits. Situation corrected immediately.

During our review of the Annual Financial Report, it came to our attention that the Yearbook fund has a deficit balance when accounts payable is taken into consideration. Accounts payable should be considered at year end to determine if funds should be transferred to avoid deficit balances.

The yearbook order was cancelled after the opening of the new school year. Refunds to each student reserving a yearbook was issued. This was a one time only incident with the yearbook account taking a loss due to the order of excess school yearbooks.

J. T. Alton Middle School

During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

In response to the auditor's inquiry regarding two different sets of initials being needed for counted cash – we have been following this practice; however, we were not aware that a receipt was needed for verification.

We have created a document specifically for this purpose and as individuals turn money in to our bookkeeper, they will sign off on this document. A copy will then be stapled to the deposit slip verifying that money was deposited.

If this practice is not sufficient in fulfilling the guidelines for proper documentation, please let us know.

Bluegrass Middle School

During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

In almost every purchase request, the person requesting the purchase sends me required paperwork to substantiate the purchase along with their signature. I generate the purchase order after this. I have in the past relied on the formal request in writing (that is attached with the purchase order) to be substituted for the signature on the purchase order. As Office Manager, I will try to put more focus on addressing this request.

During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

With every deposit of money I accept, a multiple receipt or ticket receipt must accompany the deposit. On this receipt, the person turning in the money has counted it and has a total money total included. I then count again – they are notified of any discrepancy in receipt. This deposit is then recorded on a bank deposit to be counted by a third person (bank) when the actual deposit is made. In every deposit I make, 3 persons have counted the total cash to be deposited. As Office Manager, I will try to have the Principal or Assistant Principal initial the deposited amounts before I have made them.

During our review of receipts, it came to our attention that receipts were not issued for each receipt of cash. Issuing a receipt for each receipt of cash will ensure cash receipts are properly documented.

I am not aware of any deposits that are being made without proper receipting.

Howevalley Elementary School

During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

We initial our deposit slips to the bank and not the receipts through the CPA program. All of our deposit slips were initialed. We are not required to initial the CPA receipts entered in the computer, if that is what you are referring to. All of our deposits are counted by more than one person and initialed by the second person counting the money on the deposit slip. Also all money is counted by the person that receives the money and turned in to me and then counted again by myself and then counted again by another person before depositing. I am not sure of what receipts you are referring to that need to be initialed. As far as I am aware of the only ones that we are required to initial are the money forms that are turned in to me and the deposit slips that go to the bank.

New Highland Elementary School

During our review of receipts, it came to our attention that there were not two initials to indicate two persons counted the cash. This will ensure the cash is counted and documented correctly.

Two initials indicating two people counting the cash will show on the receipt.

During our review of disbursements, we noted the receipt of merchandise was not documented. We recommend the person receiving the merchandise document the quantity and date of receipt on the invoice, packing slip or purchase order. This will help ensure the treasurer properly pays for only the amounts received.

The quantity and date received will be documented on all packing slips.

G. C. Burkhead Elementary School

During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

G.C.Burkhead's office manager/bookkeeper will make sure the person/sponsor requesting the purchase will sign the purchase request.

During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.

G.C. Burkhead's office manager/bookkeeper will make sure all monies (\$100 or more) are deposited in a timely manner.

Sonora Elementary

During our review of disbursements, we noted the receipt of merchandise was not documented. We recommend the person receiving the merchandise document the quantity and date of receipt on the invoice, packing slip or purchase order. This will help ensure the treasurer properly pays for only the amounts received.

The person receiving the merchandise will document the quantity received and date received on the packing slip and return to me in the office.

During our review of disbursements, it came to our attention that the person/sponsor requesting a purchase did not sign the purchase request. The person/sponsor requesting the purchase should sign the purchase request.

All persons requesting a purchase order shall sign it before giving it back to me in the office.

During our review of receipts, we noted that the deposits had not been made in a timely manner. Per the KDE, A Uniform Program of Accounting for School Activity Funds ("Red Book"), all monies collected should be deposited on a daily basis or until \$100 is collected.

I was unaware that this was a problem. I always make my deposits timely...even though we don't have an excessive amount of deposits.

Woodland Elementary

During our review of the Annual Financial Report, it came to our attention that the Agenda and the Yearbook funds have deficit balances when accounts payable are taken into consideration. Accounts payable should be considered at year end to determine if funds should be transferred to avoid deficit balances.

The student agenda account negative balance after the accounts payable was due to the upcoming school year's order. The new invoice was for the 2003-2004 school year. We order for the upcoming year agenda months in advance to take advantage of a sizeable discount and receive the invoice, which is due in September. The students purchase the agendas at the beginning of the school year.

As for the yearbook account, our sales were not nearly as good as we expected and I did not realize that I needed to transfer funds to cover the expenses because we were still collecting payments for the yearbooks. I will take this into consideration for this school year.



Kentucky State Committee for School District Audits Members of the Board of Education Hardin County School District Hardin, Kentucky

We have audited the financial statements of *Hardin County School District* (the "District") for the year ended June 30, 2003, and have issued our report thereon dated August 22, 2003. Professional standards require that we provide you with the following information related to our audit.

 Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and Procedures for Auditing Local School Districts' Fiscal Records

As stated in our engagement letter dated July 1, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in *Note 1* to the financial statements. As described in Note 2 to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34 as of July 1, 2002. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

These adjustments may include those proposed by us but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. Our proposed audit adjustments, that were in our judgment either individually or in the aggregate, which had a significant effect on the District's financial reporting process were recorded by the District. We would be glad to discuss the nature of these adjustments with you.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Kentucky State Committee for School District Audits Members of the Board of Education Hardin County School District Page 4

• Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management of *Hardin County School District* and is not intended to be and should not be used by anyone other than these specified parties.

Holland CPAS, PSC